



2022 Annual Report



2022 Annual Report

TWO RIVERS COOPERATIVE - PELLA, IOWA

OFFICERS & DIRECTORS

NAME, POSITION	TERM EXPIRES
Scott Marshall, <i>PRESIDENT</i>	2023
Brad Rietveld, <i>VICE-PRESIDENT</i>	2022
Matt Overbergen, <i>SECRETARY</i>	2023
Scott De Prenger, <i>TREASURER</i>	2024
Rob Vos, <i>DIRECTOR</i>	2022
Joel Gritters, <i>DIRECTOR</i>	2022
Steve Nunnikhoven, <i>DIRECTOR</i>	2023
Greg Van Walbeek, <i>DIRECTOR</i>	2024
Dennis Uitermarkt, <i>DIRECTOR</i>	2024
Floyd Uitermarkt, <i>ASSOCIATE DIRECTOR</i>	2022
Shane VanWyk, <i>ASSOCIATE DIRECTOR</i>	2023

SUPERVISORY PERSONNEL

Tracy Gathman, *GENERAL MANAGER*

ORGANIZATIONAL DATA

Incorporated	JANUARY 1920
Annual Meeting Date	WITHIN 150 DAYS OF CLOSE OF YEAR
Under Chapter 499 of the Code of	IOWA



Independent Auditor's Report

To the Board of Directors
Two Rivers Cooperative
Pella, Iowa

Opinion

We have audited the financial statements of Two Rivers Cooperative, Pella, Iowa, which comprise the balance sheets as of August 31, 2022 and 2021, and the related statements of savings, comprehensive income, members' equity and cash flows for the years then ended, and the related notes to the financial statements.

In our opinion, the accompanying financial statements present fairly, in all material respects, the financial position of Two Rivers Cooperative as of August 31, 2022 and 2021, and the results of its operations and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinion

We conducted our audits in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of our report. We are required to be independent of Two Rivers Cooperative and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audits. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Responsibilities of Management for the Financial Statements

Management is responsible for the preparation and fair presentation of the financial statements in accordance with accounting principles generally accepted in the United States of America, and for the design, implementation and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about Two Rivers Cooperative's ability to continue as a going concern for one year after the date that the financial statements are issued.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of Two Rivers Cooperative's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Two Rivers Cooperative's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings, and certain internal control – related matters that we identified during the audit.



Des Moines, Iowa
November 4, 2022

Balance Sheets - August 31, 2022 & 2021

ASSETS

CURRENT ASSETS	2022	2021
Cash	\$ 4,972,363	\$ 2,220,543
Receivables		
Notes and Contracts	31,847	27,183
Trade – Net of Allowance for Doubtful Accounts of \$29,798 (2022) and \$28,203 (2021)	2,396,993	1,715,684
Grain in Transit	235,659	47,806
Other	36,862	95,441
Margin Account	1,564,470	1,783,639
Inventories		
Grain	765,877	1,761,051
Merchandise	6,003,574	4,209,793
Petroleum	915,196	510,563
Prepaid Expenses and Purchases	1,667,068	1,876,646
Total Current Assets	18,589,909	14,248,349
PROPERTY, PLANT AND EQUIPMENT		
Land	450,622	426,376
Buildings and Equipment	30,644,577	30,482,770
	31,095,199	30,909,146
Accumulated Depreciation	(19,015,753)	(18,640,221)
Undepreciated Cost	12,079,446	12,268,925
Construction in Process	1,026,729	0
Net Property, Plant and Equipment	13,106,175	12,268,925
OTHER ASSETS		
Notes and Contracts	32,703	44,246
Right-of-Use-Assets – Operating	115,292	0
Right-of-Use-Assets – Finance	1,414,394	0
Prepaid Pension	79,121	189,370
Total Other Assets	1,641,510	233,616
EQUITY IN OTHER ORGANIZATIONS	4,722,289	5,026,533
TOTAL ASSETS	\$38,059,883	\$ 31,777,423

The accompanying notes are an integral part of the financial statements.

Balance Sheets - August 31, 2022 & 2021

LIABILITIES & MEMBERS' EQUITY

CURRENT LIABILITIES	2022	2021
Current Maturities of Long-Term Debt	\$ 550,000	\$ 1,000,000
Current Lease Liability – Operating	23,989	0
Current Lease Liability – Finance	143,508	0
Payables		
Trade	2,426,121	4,103,827
Customer Credit Balances and Prepaid Sales	4,645,472	3,031,144
Unpaid Grain	5,494,023	2,078,919
Other	20,652	23,294
Accrued Expenses		
Property Taxes	262,272	273,033
Interest	24,361	16,951
Other	363,200	315,965
Equity Revolvment	108,538	190,754
Total Current Liabilities	14,062,136	11,033,887
LONG-TERM LIABILITIES		
Notes Payable – Net of Current Maturities	4,675,000	3,512,500
Lease Liability – Operating	75,912	0
Lease Liability – Finance	1,288,606	0
Deferred Income Taxes	782,883	508,452
Total Long-Term Liabilities	6,822,401	4,020,952
MEMBERS' EQUITY		
Class A Common	65,400	70,800
Class B Common	15,000	23,050
Preferred Stock Local	613,108	732,386
Preferred Stock Regional	1,678,079	1,720,149
Preferred Stock Non-Qualified – Local	2,490,639	2,098,811
Preferred Stock Non-Qualified – Regional	1,731,078	1,752,894
Accumulated Other Comprehensive Income	79,121	189,370
Allocated Patronage Dividends	570,000	415,000
Retained Savings	9,932,921	9,720,124
Total Members' Equity	17,175,346	16,722,584
TOTAL LIABILITIES AND MEMBERS' EQUITY	\$38,059,883	\$31,777,423

Statement of Savings - August 31, 2022 & 2021

	2022	2021
Sales	\$119,777,873	\$76,168,378
Cost of Goods Sold	112,747,353	69,748,036
Gross Savings on Sales	7,030,520	6,420,342
Other Operating Revenue	3,144,143	2,528,653
Total Gross Revenue	10,174,663	8,948,995
Operating Expenses, Including Interest	9,351,857	8,402,226
Operating Savings	822,806	546,769
Patronage Dividend Income	197,758	268,841
Debt Forgiveness Income	0	602,300
Savings Before Income Taxes	1,020,564	1,417,910
Income Tax Expense	274,431	95,716
Net Savings	\$ 746,133	\$ 1,322,194

DISTRIBUTION OF NET SAVINGS

Patronage Dividends		
Non-Qualified	\$ 570,000	\$ 415,000
Retained Savings	176,133	907,194
	\$ 746,133	\$ 1,322,194

The accompanying notes are an integral part of the financial statements.

Statement of Comprehensive Income - August 31, 2022 & 2021

	2022	2021
Net Savings	\$ 746,133	\$1,322,194
Other Comprehensive Income		
Frozen Pension Plan Adjustment	(110,249)	111,280
Total Comprehensive Income	\$ 635,884	\$1,433,474

The accompanying notes are an integral part of the financial statements.



Statement of Members' Equity - August 31, 2022 & 2021



		CAPITAL STOCK	
	TOTAL	CLASS A COMMON	CLASS B COMMON
Balance – August 31, 2020	\$15,493,205	\$70,500	\$23,850
Stock Issued	1,450	1,350	100
Estate and Retirement Program Paid	(21,067)	(1,050)	(900)
Regional Preferred Redeemed Less Than Par	6,276	0	0
Comprehensive Income	1,433,474	0	0
Preferred Stock Revolvement	(190,754)	0	0
Patronage Dividends Allocation			
Deferred – Non-Qualified	0	0	0
Balance – August 31, 2021	16,722,584	70,800	23,050
Stock Issued	2,250	2,100	150
Estate and Retirement Program Paid	(105,568)	(6,000)	(8,050)
Transfers	0	(1,500)	(150)
Regional Preferred Redeemed Less Than Par	28,734	0	0
Overaccrual of Prior Year Patronage	0	0	0
Comprehensive Income	635,884	0	0
Preferred Stock Revolvement	(108,538)	0	0
Patronage Dividends Allocation			
Deferred – Non-Qualified	0	0	0
Balance – August 31, 2022	\$17,175,346	\$65,400	\$15,000

The accompanying notes are an integral part of the financial statements.

Statement of Members' Equity - August 31, 2022 & 2021



CAPITAL STOCK

QUALIFIED		NON-QUALIFIED		ACCUMULATED OTHER COMPREHENSIVE INCOME (LOSS)	ALLOCATED PATRONAGE DIVIDENDS	RETAINED SAVINGS
LOCAL PREFERRED	REGIONAL PREFERRED	LOCAL PREFERRED	REGIONAL PREFERRED			
\$ 925,917	\$1,730,517	\$2,102,365	\$1,755,312	\$ 78,090	\$ 0	\$8,806,654
0	0	0	0	0	0	0
(2,777)	(10,368)	(3,554)	(2,418)	0	0	0
0	0	0	0	0	0	6,276
0	0	0	0	111,280	0	1,322,194
(190,754)	0	0	0	0	0	0
0	0	0	0	0	415,000	(415,000)
732,386	1,720,149	2,098,811	1,752,894	189,370	415,000	9,720,124
0	0	0	0	0	0	0
(10,761)	(36,203)	(22,738)	(21,816)	0	0	0
21	(5,867)	0	0	0	0	7,496
0	0	0	0	0	0	28,734
0	0	414,566	0	0	(415,000)	434
0	0	0	0	(110,249)	0	746,133
(108,538)	0	0	0	0	0	0
0	0	0	0	0	570,000	(570,000)
\$ 613,108	\$1,678,079	\$2,490,639	\$1,731,078	\$ 79,121	\$ 570,000	\$9,932,921

The accompanying notes are an integral part of the financial statements.

Statement of Cash Flows - August 31, 2022 & 2021

	2022	2021
CASH FLOWS FROM OPERATING ACTIVITIES		
Net Savings	\$ 746,133	\$ 1,322,194
Adjustments to Reconcile Net Income to Net Cash		
Provided by Operating Activities		
Patronage Dividends Income Received as Equity	(51,215)	(78,020)
Depreciation	1,498,837	1,466,169
Right-of-Use Lease Adjustment	229	0
Gain on Sale of Property, Plant and Equipment	(33,755)	(266,990)
Bad Debt (Income) Expense	(9,553)	12,608
Debt Forgiveness Income	0	(602,300)
Deferred Income Tax Expense	274,431	95,716
Changes in Assets and Liabilities		
(Increase) Decrease in Receivables	(805,694)	813,623
(Increase) Decrease in Margin Account	219,169	(1,579,420)
Increase in Inventories	(1,203,240)	(1,489,045)
(Increase) Decrease in Prepaid Expenses	209,578	(543,839)
Increase in Payables	3,349,084	5,487,128
Increase (Decrease) in Accrued Expenses	(38,332)	311,129
Net Cash Provided by Operating Activities	4,155,672	4,948,953
CASH FLOWS FROM INVESTING ACTIVITIES		
Additions to Property, Plant and Equipment	(1,312,103)	(1,032,209)
Change in Construction in Process	(1,026,729)	0
Proceeds from Sale of Property, Plant and Equipment	36,500	416,899
(Increase) Decrease in Notes and Contracts	11,543	(9,193)
Equity in Other Organizations Redeemed	355,459	98,384
Net Cash Used in Investing Activities	(1,935,330)	(526,119)
CASH FLOWS FROM FINANCING ACTIVITIES		
Change in Checks Written in Excess of Bank Balance	0	(463,901)
Net Payments Under Line of Credit Agreement	0	(547,714)
Borrowings (Payments) of Long-Term Debt	712,500	(1,000,000)
Stock Issued	4,350	1,450
Stock Redeemed	(185,372)	(205,545)
Net Cash Provided by (Used in) Financing Activities	531,478	(2,215,710)

The accompanying notes are an integral part of the financial statements.

Statement of Cash Flows - August 31, 2022 & 2021

	2022	2021
Net Increase in Cash	\$2,751,820	\$2,207,124
Cash – Beginning of Year	2,220,543	13,419
Cash – End of Year	\$4,972,363	\$2,220,543

SUPPLEMENTAL DISCLOSURES OF CASH FLOW INFORMATION

Cash Paid During the Year for:

Interest	\$ 557,688	\$ 327,287
Income Taxes	0	0

SUPPLEMENTAL SCHEDULE OF NON-CASH INVESTING ACTIVITIES

Obtain Right-of-Use Assets	\$1,466,788	\$ 0
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SUPPLEMENTAL SCHEDULE OF NON-CASH FINANCING ACTIVITIES

Allocated Patronage Dividends – Non-Qualified	\$ 570,000	\$ 415,000
Debt Forgiveness Income	0	602,300
Lease Liabilities from Obtaining Right-of-Use Assets	1,466,788	0

The accompanying notes are an integral part of the financial statements.



Notes to Financial Statements

Note 1: Organization & Nature of Business

The Company was incorporated in 1920 under Iowa Law and is operating as a cooperative for the mutual benefit of its members. Voting common stock ownership is limited to agricultural producers on a one share–one vote premise. Net savings on business transacted by members is allocated to them on the books of the Corporation or paid to them through patronage dividends.

The Company operates a licensed public grain warehouse; provides grain marketing and related services, sells feed, petroleum and agronomy in and around Marion, Jasper and Mahaska counties in Iowa.

The Company's gross revenues were derived from:

	2022	2021
Agronomy Sales and Related Services	37%	34%
Grain Sales and Related Services	23	25
Petroleum Sales and Related Services	28	26
Feed Sales and Related Services	10	10
Other Merchandise Sales and Services	2	5

Note 2: Summary of Significant Accounting Policies

The significant accounting practices and policies are summarized below.

RECENTLY ISSUED ACCOUNTING STANDARDS

Accounting Standards Update (ASU) 2016-02, Leases, ASU 2018-10, Leases – Codification Improvements, and ASU 2018-11, Leases – Targeted Improvements have been early-adopted by the Company as of September 1, 2021, using the modified retrospective method. These ASU's require companies to recognize lease assets and lease liabilities on the balance sheet and disclose key information about leasing arrangements. As of August 31, 2022, the Company has recognized Right-of-Use (ROU) Assets of \$115,292, a Current Lease Liability of \$23,989 and a Long-Term Lease Liability of \$75,912 for existing Lease Liability of \$1,288,606 for existing financing leases on the balance sheet. There was no cumulative effect adjustment to retained earnings as a result of the adoption. As part of the adoption, the Company has elected practical expedients allowed by the ASU, and as a result, will not assess whether expired or existing contracts are leases or contain leases under the new standard or assess classification of any expired or existing leases under the new standard. The Company has also elected practical expedients that allow an entity to use hindsight in determining the lease term and assessing impairment of ROU assets during the transition, that allow entities with existing or expired land easements not previously accounted for as leases to forgo assessing whether those contracts contain leases under the new standard, and that allow entities to combine lease and associated non-lease components.

COMPREHENSIVE INCOME REPORTING

The Company accounts for comprehensive income in accordance with the Comprehensive Income Topic of the *Financial Accounting Standards Board* (FASB) *Accounting Standards Codification* (ASC), which requires comprehensive income and its components to be reported when a company has items of other comprehensive income. Comprehensive income includes net income plus other comprehensive income (i.e., certain revenues, expenses, gains and losses reported as separate components of stockholders' equity rather than in net income).

RECEIVABLES, NET

Receivables are shown on the balance sheet net of the allowance for doubtful accounts for book purposes. The amount of the allowance is based on historical bad debt experience and a current evaluation of the aging and collectability of receivables. For tax purposes, uncollectible amounts are charged against current operations and no allowance for doubtful accounts is maintained.

Because of uncertainties inherent in the estimation process, management's estimate of credit losses inherent in the accounts receivable and the related allowance may change in the near term.

Trade receivables with credit balances have been included in the customer credit balances and prepaid sales as a current liability.

GRAIN IN TRANSIT

In accordance with industry practice on contracts, subject to final grade and weight determination at the destination point, the Company consistently records a sale at the time grain is shipped.

HEDGING

The Company generally follows a policy of hedging its grain and fuels transactions to protect gains and minimize losses due to market fluctuations. Gains and losses from these hedge transactions are reflected in the margins of the respective commodity.

INVENTORIES

Commodity inventories such as grain and fuels are valued at market (realizable value adjusted for freight, test weights, discounts and other differentials), including a provision for gains or losses on future sales and purchase commitments.

Merchandise inventories are valued at lower cost (first-in, first-out method) or net realizable value. Net realizable value is the estimated selling price in the ordinary course of business, less reasonably predictable costs of completion, disposal and transportation.

PROPERTY, PLANT & EQUIPMENT

Land, buildings and equipment are stated at cost. Depreciation methods are discussed in Note 5.

Maintenance and repairs are expensed as incurred. Expenditures for new facilities and those which increase the useful lives of the buildings and equipment are capitalized. When assets are sold or otherwise disposed of, the related cost and accumulated depreciation are removed from the accounts and gains or losses on the dispositions are recognized in earnings.

EQUITY IN OTHER ORGANIZATIONS

Equities in other organizations are recorded at cost, plus unredeemed patronage dividends received in the form of capital stock and other equities. Cooperative stocks are not transferable, thereby precluding any market value, but they may be used as collateral in securing loans. Patronage dividends received are recognized as income and any impairment of equities is not recognized by the Company until formal notification is received, or when there has been permanent impairment of the carrying value of the investment. Redemption of these equities is at the discretion of the various organizations.

MEMBERS' EQUITY

Common stock may be issued only to members who are agricultural producers or other users. Equities are issued and/or redeemed at par value. All equity transactions require Board of Director approval.

PATRONAGE DIVIDEND INCOME

Patronage refunds from other cooperatives are recognized as income in the year the Company receives notification from the distributing cooperative.

DISTRIBUTION OF NET SAVINGS

Net savings is allocated to patrons on a patronage basis, based on taxable income and in accordance with the articles and bylaws of the Company.

Patronage refunds to members of the cooperative may take the form of either qualified or nonqualified written notices of allocation. The

terms qualified and nonqualified refer to the tax aspect of a refund.

For a patronage refund to be qualified as an income tax deduction for the Company at least 20% of the refund must be paid in cash. A nonqualified refund then, is a refund where less than 20% of the refund is paid to the member in cash and does not qualify as a tax deduction for the Company.

Unallocated savings, after provision for income taxes, is accounted for as an addition to unallocated retained savings.

USE OF ESTIMATES

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

REVENUE RECOGNITION

The Company provides a wide variety of products and services, from production agricultural inputs such as livestock feeds, crop nutrients, fuels and other farm supplies, to grain marketing, storage and drying services, agronomy spreading and spraying, transportation, and other agricultural related services. Sales are recorded upon transfer of title, which could occur at the time commodities are shipped or upon receipt by the customer, depending on the terms of the transaction. Service revenues are recorded once such services have been rendered.

The Company markets grain and fuels to various other companies in accordance with normal industry terms using forward commodity sales contracts. A large portion of the Company's revenues are attributable to these contracts, which are considered to be physically settled derivative sales contracts under Accounting Standards Codification (ASC) Topic 815, Derivatives and Hedging (ASC Topic 815).

Revenues arising from derivative contracts accounted for under ASC Topic 815 are specifically outside the scope of ASC Topic 606 and therefore not subject to the provisions of the new revenue recognition guidance.

Disaggregation of Revenues

The following table presents revenues recognized under ASC Topic 606 as well as the amount of revenues recognized under ASC 815 and other applicable accounting guidance for the years ended August 31, 2022 and 2021.

	2022	2021
Topic 815 – Derivative and Hedging	\$ 99,845,919	\$62,309,829
Topic 606 – Contracts with Customers	23,011,069	16,301,754
Other	262,786	956,589
	<u>\$123,119,774</u>	<u>\$79,568,172</u>

Less than 1% of revenues accounted for under ASC Topic 606 included within the tables above are recorded over time and relate primarily to service contracts.

Contract Assets and Contract Liabilities

Contract assets relate to unbilled amounts arising from goods that have already been transferred to the customer where the right to payment is not conditional on the passage of time. This results in the recognition of an asset, as the amount of revenue recognized at a certain point in time exceeds the amount billed to the customer. Contract assets are recorded within Notes and Contracts on our Balance Sheets and were \$64,550, \$71,429 and \$51,289 of August 31, 2022, 2021 and 2020, respectively.

Contract liabilities relate to advance payments from customers for goods and services that the Company has yet to provide. Contract liabilities of \$4,645,472, \$3,031,144 and \$824,860 as of August 31, 2022, 2021, and 2020, respectively, are recorded within Customer Credit Balances and Prepaid Sales on our Balance Sheets. The Company expects to complete its performance obligations related to these prepayments via point in time sales transactions over the course of the next fiscal year.

SALES TAXES

Various entities impose a sales tax on specific categories of the Company's sales. The Company collects the sales tax from patrons and remits the entire amount to the respective taxing authorities. The Company excludes the tax collected and remitted from sales and the cost of sales, respectively.

INCOME TAXES

The Company, as a non-exempt cooperative, is taxed on non-patronage earnings and any patronage earnings not paid or allocated to patrons.

The Company evaluates uncertain tax benefits arising from tax positions taken or expected to be taken based upon the likelihood of being sustained upon examination by applicable tax authorities. If the Company determines that a tax position is more likely than not of being sustained, it recognizes the largest amount of the arising benefit that is greater than 50% likely of being realized upon settlement in the financial statements. Any tax positions taken or expected to be taken that do not pass the more likely than not test, the Company establishes reserves offsetting the benefits related to such positions. Interest and penalties, if any, are included in the current period provision for income taxes in the Company's statements of savings and are included as a current liability in the balance sheets.

DEFERRED INCOME TAXES

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. The principal temporary differences are due to the use of different financial reporting and income tax methods for depreciation, bad debts, inventory capitalization and compensated absences.

LEASES

Leases are accounted for according to FASB ASU 2016-02, Leases (Topic 842). The right-of-use assets are measured at cost and depreciated over their useful life on a straight-line basis. The right-of-use assets are presented in the consolidated balance sheet under the caption "Right-of-Use Assets" and the lease liabilities are presented as current and non-current "Lease Liability".

ADVERTISING EXPENSES

The Company's advertising expenses are charged against income during the year in which they are incurred. Total advertising costs charged to expense for the years ended August 31, 2022 and 2021 are \$216,142 and \$184,162, respectively.

DERIVATIVE FINANCIAL INSTRUMENTS

The Company has only limited involvement with derivative financial instruments and does not use them for trading purposes. They are used to manage well-defined commodity price risks. The Company may use futures, forward, option and swap contracts to reduce the volatility of grain and fuels. These contracts permit final settlement by delivery of the specified commodity. These contracts are not designated as hedges as defined by the Derivatives and Hedging Topic of the FASB ASC. Unrealized gains or losses are recognized in the valuation of the respective commodity's ending inventory.

FAIR VALUE OF FINANCIAL INSTRUMENTS

The Fair Value Measurements and Disclosures Topic of the FASB ASC defines fair value as the price that would be received to sell an asset or paid to transfer a liability between market participants in the principal market or in the most advantageous market when no principal market exists. Market participants are assumed to be independent, knowledgeable, able and willing to transact an exchange and not under duress. Nonperformance or credit risk is considered when determining the fair value of liabilities. Considerable judgment may be required in interpreting market data used to develop the estimates of fair value. Accordingly, estimates of fair value presented herein are not necessarily indicative of the amounts that could be realized in a current or future market exchange.

DEBT FORGIVENESS

The Company received forgivable debt during the year ended August 31, 2021 from the Small Business Administration (SBA). The Company elected to account for the forgivable debt under FASB ASC 470-50, *Debt Modifications and Extinguishments* and FASB ASC 405-20, *Extinguishment of Liabilities*. Forgivable debt received from a government entity was accounted for as debt until debt extinguishment occurs when the Company is legally released from being the obligor. Upon release, the Company recognized the forgiven amount as income in the Statements of Savings.

Note 3: Concentrations of Risk

CREDIT RISK – FINANCIAL INSTITUTIONS

The Company had deposits with financial institutions in excess of insured limits in the amount of \$4,282,312 and \$1,105,048 at August 31, 2022 and 2021, respectively.

CREDIT RISK – RECEIVABLES

The Company is a locally owned agri-business supplier with facilities in Marion, Jasper and Mahaska counties. In the normal course of business, the Cooperative grants credit to customers, substantially all of whom are agricultural producers and members of the Cooperative residing and/or operating in the above-mentioned counties under standard terms without collateral. As these receivables are concentrated in the agricultural industry, collection of the receivables may be dependent upon economic returns from farm crop and livestock production. Additionally, the Company grants credit to other customers purchasing processed agricultural products in trade areas beyond the above counties. The Company's credit risks are continually reviewed and management believes that adequate allowances have been made for doubtful accounts.

CREDIT RISK – SUPPLIERS

The Company historically prepaids for or makes deposits on undelivered inventories. Concentration of credit risk with respect to inventory advances, are primarily with a few major suppliers of agricultural inputs.

OFF-BALANCE SHEET RISK – COMMODITY CONTRACTS

Realized and unrealized gains and losses from futures and forward hedge contracts and commitments are included in gross savings. There is the possibility that future changes in market prices may make these contracts more or less valuable, thereby, subjecting them to market risk. Risk arises from changes in the value of these contracts and commitments and the potential inability of counterparties to perform under the terms of the contracts. There are numerous factors which may significantly influence the value of these contracts and commitments, including market volatility.

Note 4: Related Party Transactions

The Company, organized on a cooperative basis, conducts a substantial portion of their operations with members (owners) of the Company and has ownership interest in various regional cooperatives from whom they purchase products for resale and sell products to.

The Company sells supplies to and purchases grain from the Board of Directors and certain employees. The aggregate of these transactions is not significant to the financial statements.

The Company had trade receivables due from directors and employees of \$56,791 and \$40,721 as of August 31, 2022 and 2021, respectively.

The Company had patron credit balances due to directors and employees of \$331,213 and \$365,486 as of August 31, 2022 and 2021, respectively.



Note 5: Property, Plant & Equipment

The August 31, 2022 cost of depreciable assets by depreciation method is as follows:

	LIFE IN YEARS	STRAIGHT-LINE	DECLINING BALANCE	TOTAL
Buildings	7-50	\$11,512,762	\$ 0	\$11,512,762
Equipment	3-33	15,348,117	141,425	15,489,542
Vehicles	3-10	3,642,273	0	3,642,273
		\$30,503,152	\$141,425	\$30,644,577

The August 31, 2021 cost of depreciable assets by depreciation method is as follows:

	LIFE IN YEARS	STRAIGHT-LINE	DECLINING BALANCE	TOTAL
Buildings	7-50	\$11,471,943	\$ 0	\$11,471,943
Equipment	3-33	15,004,464	141,425	15,145,889
Vehicles	3-10	3,864,938	0	3,864,938
		\$30,341,345	\$141,425	\$30,482,770

Depreciation expense in the amount of \$1,446,443 and \$1,466,169 has been charged against operations for the years ended August 31, 2022 and 2021, respectively.

At August 31, 2022 the Company had construction in process as follows:

	ESTIMATED COMPLETION DATE	COSTS TO DATE	ESTIMATED COMPLETED COSTS
Monroe Bin Addition	09-2022	\$ 567,555	\$ 262,445
2023 Freightliner Semi Tractor	11-2022	145,094	9,906
Pella Feedmill Refurbish	06-2023	6,354	493,646
Otley Cardtrol Refurbish	09-2022	15,962	19,038
Pella Cardtrol Renovation	12-2022	291,764	374,236
		\$1,026,729	\$1,159,271

Note 6: Equity in Other Organizations

Equity in other cooperatives consist of purchased equities, which are valued at cost, and equities received as patronage dividend income, which are carried at face value. Losses are recognized on these investments when the Company receives formal notification of loss allocations from the investee, or when there has been permanent impairment of the carrying value of the investment. Redemption of

these equities is at the discretion of the various organizations, thereby making it impracticable to estimate future cash flows from these investments.

At August 31, 2022 and 2021 the Company had equity in other cooperatives as follows:

	2022	2021
CHS, Inc.	\$2,810,849	\$2,919,131
Land O'Lakes, Inc.	1,138,290	1,229,942
CoBank, ACB	400,376	376,638
The Cooperative Finance Association, Inc.	219,292	222,933
Ag Processing, Inc.	141,227	265,634
Others	12,255	12,255
	\$4,722,289	\$5,026,533

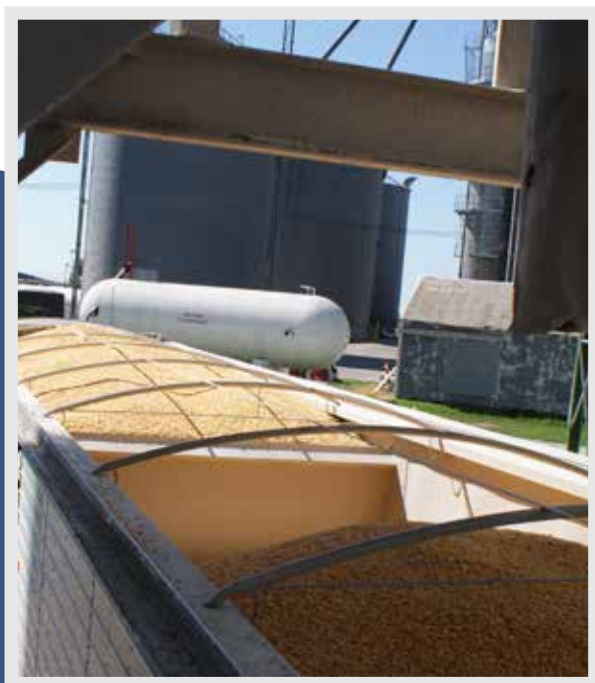
Note 7: Unpaid Grain

Unpaid grain at August 31, 2022 and 2021 consisted of deferred payment, price later and priced not paid grain contracts. Deferred payment and priced not paid contracts represents grain on which title has passed to the Company with payment to be made at a later date. Price later contracts represent grain on which title has passed to the Company with a price to be fixed at a later date. The Company

includes these bushels as purchases and reflects the corresponding liability based on the bid price at August 31.

The contracts as of August 31, 2022 and 2021 are summarized as follows:

	2022		2021	
PRICE LATER CONTRACTS	BUSHEL	AMOUNT	BUSHEL	AMOUNT
Corn	87,279	\$ 647,785	38,467	\$ 192,046
Soybeans	13,926	187,718	15,435	190,237
		835,503		382,283
DEFERRED PAYMENT CONTRACTS				
Corn	384,594	2,883,898	200,336	1,210,909
Soybeans	84,063	1,284,742	23,532	327,054
		4,168,640		1,537,963
PRICED NOT PAID CONTRACTS				
Corn	51,185	379,326	22,818	146,637
Soybeans	6,827	110,554	896	12,036
		489,880		158,673
		\$5,494,023		\$2,078,919



Note 8: Financing Arrangements

Information regarding financing at August 31, 2022 and 2021 is as follows:

LENDER	INTEREST RATE	BALANCE		REPAYMENT BASIS
		2022	2021	
CoBank, ACB				
RI0302T01-A	5.52%*	\$5,225,000	\$1,712,500	\$137,500 due quarterly thru 11-20-26; balance due 02-20-27.
CoBank, ACB				
RI0302T03-A	N/A	0	2,800,000	Outstanding balance transferred to T01-A on 05-13-22.
		5,225,000	4,512,500	
Less: Current Maturities		550,000	1,000,000	
Long-Term Debt		<u>\$4,675,000</u>	<u>\$3,512,500</u>	

Seasonal borrowings in effect at August 31, 2022 and 2021 are as follows:

LENDER	INTEREST RATE	BALANCE		REPAYMENT BASIS
		2022	2021	
CoBank, ACB – S01	5.22%*	\$0	\$0	Due 06-01-23.

*Denotes continuously variable interest rate.

The CoBank, ACB notes are secured by a first mortgage lien on all real property owned by the Company and a security agreement covering all personal property, including inventory and accounts receivable arising from the sale thereof, subject only to first mortgages and security agreements for other contracts. They are further secured by \$400,376 of equity in CoBank, ACB.

The loan agreements with CoBank, ACB, contain restrictive and

affirmative covenants which provide, among other things; (1) restrictions on incurring additional indebtedness, (2) making loans to any one person or entity outside the ordinary course of business, (3) limitations on the type and amount of guarantees, and (4) maintaining certain levels of working capital on a monthly and year-end basis.

Loan commitments in effect at August 31, 2022 and 2021, were as follows:

OPERATING	2022	2021
Operating – CoBank, ACB	\$16,000,000	\$10,000,000
Term – CoBank, ACB	5,225,000	4,512,500

Aggregate annual maturities of the long-term debt outstanding at August 31, 2021, are as follows:

MATURITY DATE - YEAR ENDING AUGUST 31

2023	\$ 550,000
2024	550,000
2025	550,000
2026	550,000
2027	3,025,000
	<u>\$5,225,000</u>

Interest expense charged to operations at August 31, 2022 and 2021 was \$565,098 and \$325,779, respectively.

Note 9: Capital Stock

At August 31, 2022 and 2021, capital stock consisted of the following:

	PAR VALUE	SHARES AUTHORIZED	SHARES OUTSTANDING	
			2022	2021
Class A Common Stock	\$150	3,000	436	472
Class B Common Stock	50	2,000	300	461
Class A Preferred Stock	1	6,000,000	613,108	732,386
Class B Preferred Stock	1	6,000,000	844,688	855,951
Class C Preferred Stock	1	3,000,000	0	0
Class D Preferred Stock	1	3,000,000	833,391	864,198
Class E Preferred Stock	1	6,000,000	2,490,639	2,098,811
Class F Preferred Stock	1	6,000,000	1,731,078	1,752,894
Class G Preferred Stock	1	6,000,000	0	0
Class H Preferred Stock	1	6,000,000	0	0
Class I Preferred Stock	1	6,000,000	0	0
Class J Preferred Stock	1	6,000,000	0	0
Class K Preferred Stock	1	6,000,000	0	0
Class L Preferred Stock	1	6,000,000	0	0
Class M Preferred Stock	1	6,000,000	0	0
Class N Preferred Stock	1	6,000,000	0	0
Class O Preferred Stock	1	6,000,000	0	0

All stock will be issued at its par value. The Company may pay dividends not to exceed eight percent per year of par value on Classes G and H Preferred Stock, but will not pay dividends on any other class

of its stock. Class A Common Stock is the only class of stock with voting rights. A person may only own one share of common stock.

Note 10: Pension Plans

Substantially all of the Company's employees participate in the Coop Retirement Plan, which is a multiple employer defined benefit plan that is funded by contributions from employer and employees and provides for monthly income for life upon retirement or upon total and permanent disability. The amount of benefits is based upon length of service and compensation. The plan is administered by United Benefits Group.

The Company intends to continue to participate in the plan indefinitely; however, it may voluntarily discontinue the plan at any time. The Company's annual contributions are consistently charged to expenses as they are due. The plan, which has no funding deficiencies, uses the aggregate cost method of valuations. Under this

method, the normal cost is adjusted each year to reflect the experience under the plan, automatically spreading gains or losses over future years. The relative position of each employer associated with the plan, with respect, to the actuarial present value of accumulated benefits is not determinable.

The Company is one of approximately 300 employers that contributes to the Co-op Retirement Plan (the "Plan"), which is a defined benefit plan constituting a "multiple employer plan" under the Internal Revenue Code of 1986, as amended, and a "multiemployer plan" under the FASB Accounting Standards Master Glossary. The risks of participating in these multiemployer plans are different from single-employer plans in the following aspects:

Note 10: Pension Plans (Continued)

a. Assets contributed to the multiemployer plan by one employer may be used to provide benefits to employees of other participating employers;

b. If a participating employer stops contributing to the plan, the unfunded obligations of the plan may be borne by the remaining participating employers; and

The Company's participation in the Plan, including administration costs, for the years ended August 31, 2022 and 2021 is outlined in the table below:

PLAN NAME	EIN	PLAN NUMBER	CONTRIBUTIONS	
			2022	2021
Co-op Retirement Plan	01-0689331	001	\$152,579	\$168,069

The Company's contributions for the years stated above constitute its total contributions made to all multiemployer plans and did not represent more than 5 percent of total contributions to the Plan as indicated in the Plan's most recently available annual report (Form 5500). There have been no significant changes that affect the comparability of 2022 and 2021 contributions. Plan-level information is included in Form 5500 and therefore is available in the public domain.

The Company participates in a 401(k) thrift plan administered by Associated Benefits Corporation. The plan covers full-time employees over 21 years of age who have completed at least four months of continuous employment. Presently, only employee

c. The Company intends to participate in the plan indefinitely, however it may voluntarily elect to discontinue the plan at any time, and may be required to pay the plan an amount based on the underfunded status of the plan, referred to as a withdrawal liability that could be material to the financial statements.

contributions are being made to the plan. The Company paid administration fees for the years ended August 31, 2022 and 2021 in the amount of \$13,552 and \$11,611, respectively.

Prior to the merger, employees of Farmers Cooperative Exchange and its joint venture Cornerstone Feeds participated in separate defined benefit plans administered by Association Benefits Corporation. Each of these plans has been frozen and will remain frozen until each plan is terminated. The Company made no contributions to the plan for the years ended August 31, 2022 and 2021.

Termination surplus (deficit) for each of the plans for the years ended August 31, 2022 and 2021 were as follows:

**Farmers Cooperative Exchange
Cornerstone Feeds**

2022	2021
\$76,699	\$182,647
2,422	6,723
\$79,121	\$189,370

The Company made no contributions to the plan for the years ended August 31, 2022 and 2021.

The effects of any curtailments of the plan were not reasonably estimable at August 31, 2022 and 2021, and accordingly, the Company has not reflected any gains or losses.



Note 11: Income Taxes

Components of the provision for income tax expense (benefit) for the years ended August 31, 2022 and 2021 was as follows:

	2022	2021
Deferred Income Tax Expense	\$274,431	\$95,716

Total income tax expense for the years ended August 31, 2022 and 2021, was less than the normal amount computed by applying the U.S. federal income tax rate to savings before income taxes primarily because of permanent timing differences and temporary timing differences creating deferred income taxes.

Deferred income taxes reflect the net tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for income tax purposes. Deferred taxes are classified as non-current.

Amounts for deferred tax assets and liabilities at August 31, 2022 and 2021 are as follows:

Deferred Tax Assets (Liabilities) – Non-Current

	2022	2021
Non-Qualified Allocation	\$ 1,393,167	\$ 1,271,063
Net Operating Loss	1,412	66,810
Accrued Compensated Absences	30,523	32,475
Allowance for Doubtful Accounts	263	9,307
263A Inventory Capitalization	12,680	9,107
	1,438,045	1,388,762
Deferred Tax Liabilities		
Depreciation	(2,220,928)	(1,897,214)
Total Non-Current Deferred Tax Liabilities	\$ (782,883)	\$ (508,452)

The Company files tax returns with the Internal Revenue Service and the State of Iowa.

At August 31, 2022 the Company has available an unused net operating loss carry forward of \$25,673 that may be applied against

future taxable income. The carry forward will expire August 31, 2032.

The Company has available unused federal tax credits totaling \$154,759. The tax credits have a twenty year carry forward and will begin to expire August 31, 2033.

Note 12: Leases

The Company entered into an operating and a financing lease arrangements during the year. These leases are for agronomy equipment and a grain bin and vary in duration from 5 to 7 years and expire on various dates through 2029. Lease payments are fixed but are subject to overages on equipment usage. The Company's policy is to not recognize a lease liability and corresponding right-of-use asset if the lease term is one year or less. Discount rates used to value the lease liabilities were derived rate implicit in the lease or from risk-free rates published by the US Treasury as of the lease inception.

Right-of-use assets associated with operating leases have been recorded at the present value of future minimum lease payments. Rent expense of \$10,994 and \$21,732 for the years ended

August 31, 2022 and 2021, respectively, has been charged against operations. Substantially all of this expense is related to operating leases over one year in duration.

Right-of-use assets associated with finance leases are recorded at cost net of accumulated amortization. Interest expense incurred on finance leases totaled \$19,330 for the year ended August 31, 2022. Amortization expense incurred on right-of-use assets totaled \$52,394 for the year ended August 31, 2022. The Company had no interest or amortization expense relating to finance leases for the year ended August 31, 2021.

Note 12: Leases (Continued)

The following is a schedule, by year, of approximate minimum lease payments required under the leases that have initial or remaining non-cancelable lease terms in excess of one year as of August 31, 2022.

**MATURITY DATE
YEAR ENDING**

August 31	Operating	Financing
2023	\$ 26,385	\$ 216,018
2024	26,385	216,018
2025	26,385	216,018
2026	26,385	216,018
2027	0	216,018
Thereafter	0	671,391
Total	105,540	1,751,481
Present Value Discount	(5,639)	(319,367)
Lease Liability	\$ 99,901	\$1,432,114

The weighted average remaining lease term and weighted average discount rates for finance leases and operating leases as of August 31, 2022 are as follows:

	WEIGHTED AVERAGE REMAINING TERM	WEIGHTED AVERAGE DISCOUNT RATE
Operating Leases	6.75%	5.45%
Finance Leases	4.58	2.66

Note 13: Fair Value Measurements

The Company determines the fair market value of its instruments as of August 31, 2022 and 2021 based on the three levels of fair value hierarchy which are:

- Level 1** Values are based on unadjusted quoted prices in active markets for identical assets or liabilities. These assets or liabilities include commodity derivative contracts on the Chicago Board of Trade.
- Level 2** Values are based on quoted prices for similar assets or liabilities in active markets, quoted prices for identical assets or liabilities exchanged in inactive markets.
- Level 3** Values are based on unobservable inputs reflecting management's own assumptions and best estimates that market participants would use in pricing the asset or liability.

The asset's or liability's fair value measurement level within the fair value hierarchy is based on the lowest level of any input that is significant to the fair value measurement. Valuation techniques used need to maximize the use of observable inputs and minimize the use of unobservable inputs.

Note 13: Fair Value Measurements (Continued)

The following table sets forth assets and liabilities measured at fair value and the respective levels to which fair value measurements are classified within the fair value hierarchy:

FAIR VALUES AS OF AUGUST 31, 2022

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial Assets				
Forward Contracts – Grain	\$ 0	\$ 43,510	\$0	\$ 43,510
Futures Contracts – Grain	28,385	0	0	28,385
Futures Contracts – Fuels	579,099	0	0	579,099
Grain Inventories	0	722,367	0	722,367
Fuel Inventories	0	917,310	0	917,310
	\$607,484	\$1,683,187	\$0	\$2,290,671

Financial Liabilities

Forward Contracts – Fuels	\$ 0	\$ 176,724	\$0	\$ 176,724
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FAIR VALUES AS OF AUGUST 31, 2021

	LEVEL 1	LEVEL 2	LEVEL 3	TOTAL
Financial Assets				
Forward Contracts – Grain	\$ 0	\$ 237,034	\$0	\$ 237,034
Futures Contracts – Grain	360,833	0	0	360,833
Futures Contracts – Fuels	778,439	0	0	778,439
Grain Inventories	0	1,524,017	0	1,524,017
Fuel Inventories	0	398,661	0	398,661
	\$1,139,272	\$2,159,712	\$0	\$3,298,984

Financial Liabilities

Forward Contracts – Fuels	\$ 0	\$ 48,248	\$0	\$ 48,248
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The carrying value of the Company's other financial instruments, consisting principally of cash, trade receivables, accounts payable, lines of credit and other obligations, approximates fair value due to the short-term maturity of these instruments. The carrying value of long-term borrowings approximates fair value as the interest the

Company could obtain on similar debt instruments approximate the interest rates of current debt obligations. The Company's investments in other cooperatives are stated at cost. There is no established market for these investments, and it is not otherwise practical to determine the fair value of investments in cooperatives.



Note 14: Derivative Financial Instruments & Hedging Activities

The Company's purpose for entering into derivative and its overall risk management strategies are discussed in Note 2. The fair value of commodity derivatives is presented in Note 13. Additional information regarding the fair value of derivative transactions is as follows:

DERIVATIVE LIABILITY:	BALANCE SHEET LOCATION	FAIR VALUE AS OF AUGUST 31	
		2022	2021
Open Futures Contracts	Margin Account	\$607,484	\$1,139,272

In addition, gains and losses on commodity derivatives are located in gross savings on sales in the Statements of Savings. Net gains on commodity futures contracts amounted to \$4,884,320 and \$3,075,458 for the years ended August 31, 2022 and 2021, respectively.

Note 15: Commitments & Contingencies

- a. The Company is contingently liable for any weight or grade deficiencies that may occur at time of delivery on the following bushels of grain in storage under warehouse receipts or awaiting disposition at August 31, 2022:

DAILY POSITION RECORD (DPR)	CORN	OATS	SOYBEANS
Open Storage	128,497	74	72,982
Company Owned – Unpaid	523,058	0	104,816
Company Owned – Paid	(452,862)	2,478	(91,327)
Total Company Owned	70,196	2,478	13,489
Total Stocks Per DPR	198,693	2,552	86,471

- b. The Company is subject to various federal and state regulations regarding the care, delivery and containment of products which the Company handles and has handled. The Company is contingently liable for any associated costs which could arise from the handling, delivery and containment of these products. These costs cannot be determined at present. While resolution of any such costs in the future may have an effect on the Company's financial results for a particular period, management believes any such future costs will not have a material adverse effect on the financial position of the Company as a whole.
- c. The Company has entered into an agreement with The Cooperative Finance Association, Inc., where The Cooperative Finance Association, Inc. will provide input financing to certain company patrons. The Company agrees to perform services regarding the origination, servicing, and collection of completed documents from patrons and related parties. The Company will guarantee 0%–100% of the total non-collectible producer loan amounts, as well as 0%–100% of any expenses incurred by The Cooperative Finance Association, Inc., in the collection or attempted collection of any patron loan. Total outstanding balances as of August 31, 2022, are as follows:

Outstanding Principal Balance	\$1,205,230
Accrued Interest	28,152
Guarantee Amount	344,172

Note 16: Subsequent Events

The Company has considered the effect, if any, that events occurring after the balance sheet date and up to November 4, 2022 have on the financial statements as presented. This date coincides with the date the financial statements were available to be issued.

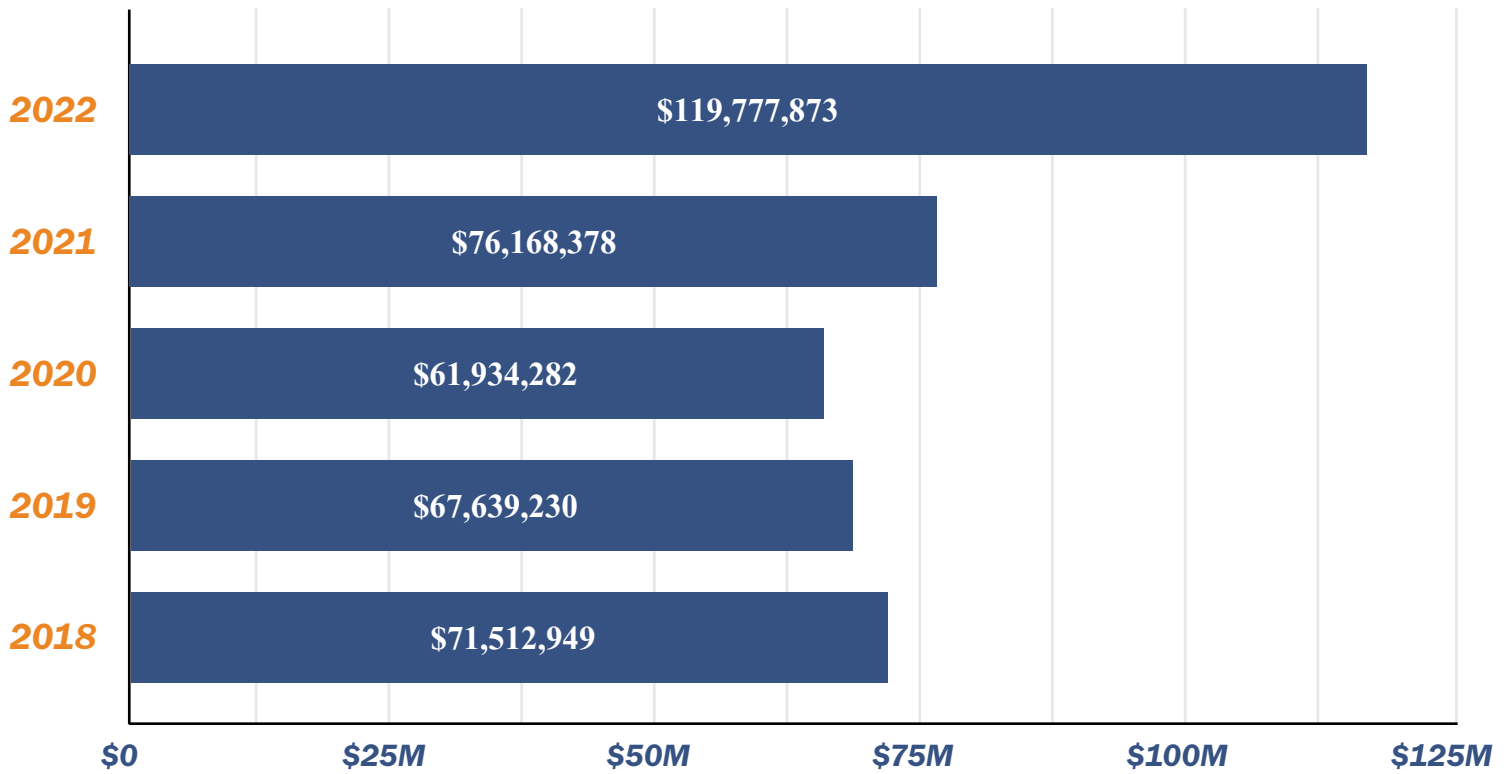


Annual Meeting 2022 - Years in Review

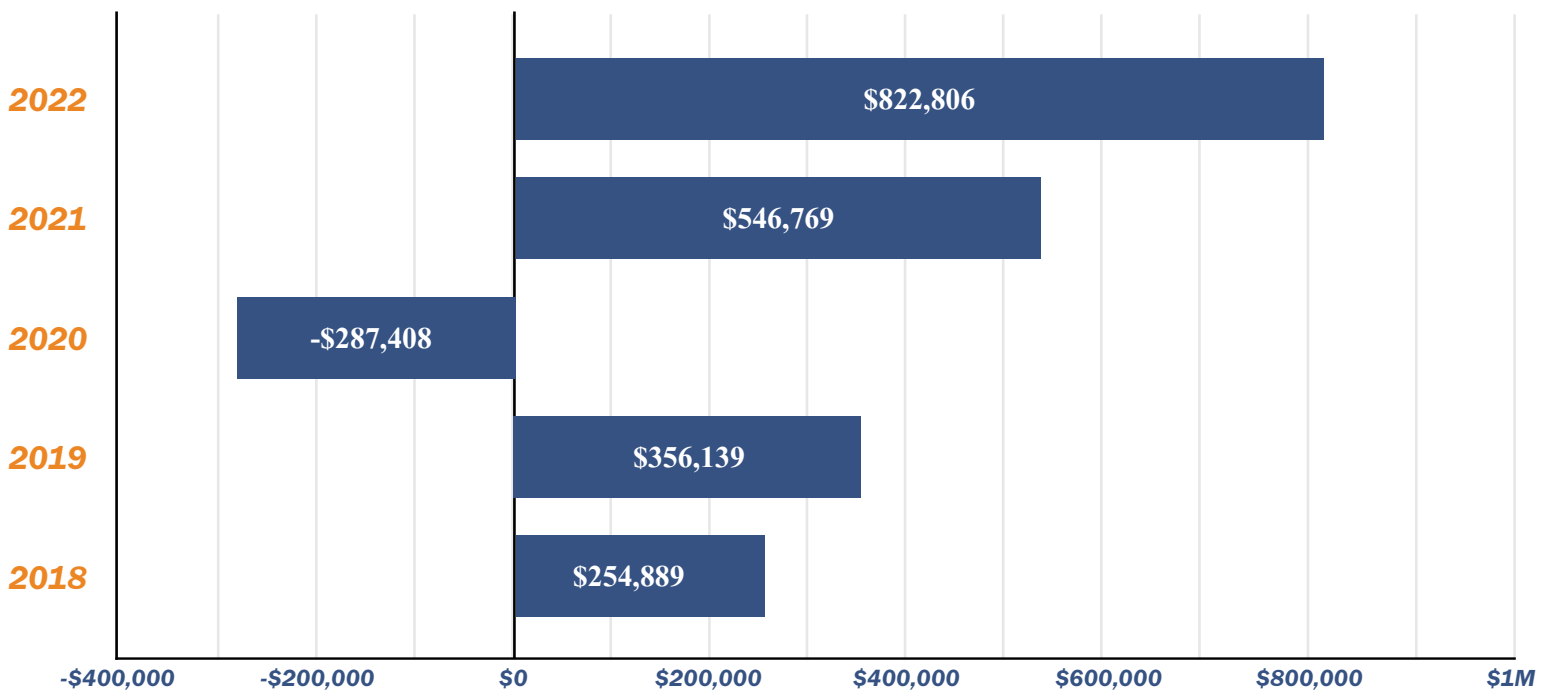
	2022	2021	2020	2019	2018
Total Sales	\$119,777,873	\$76,168,378	\$61,934,282	\$67,639,230	\$71,512,949
Local Savings	\$822,806	\$546,769	-\$287,408	\$356,139	\$254,889
Total Savings	\$746,133	\$1,322,194	\$168,252	\$762,192	\$890,894
Total Members' Equity	\$17,175,346	\$16,722,584	\$15,493,205	\$15,339,123	\$14,751,013
Cash Returned to Members	\$185,372	\$205,545	\$28,958	\$170,143	\$75,409
Fixed Asset Expenditures	\$2,503,584	\$882,300	\$1,161,974	\$1,034,771	\$417,678



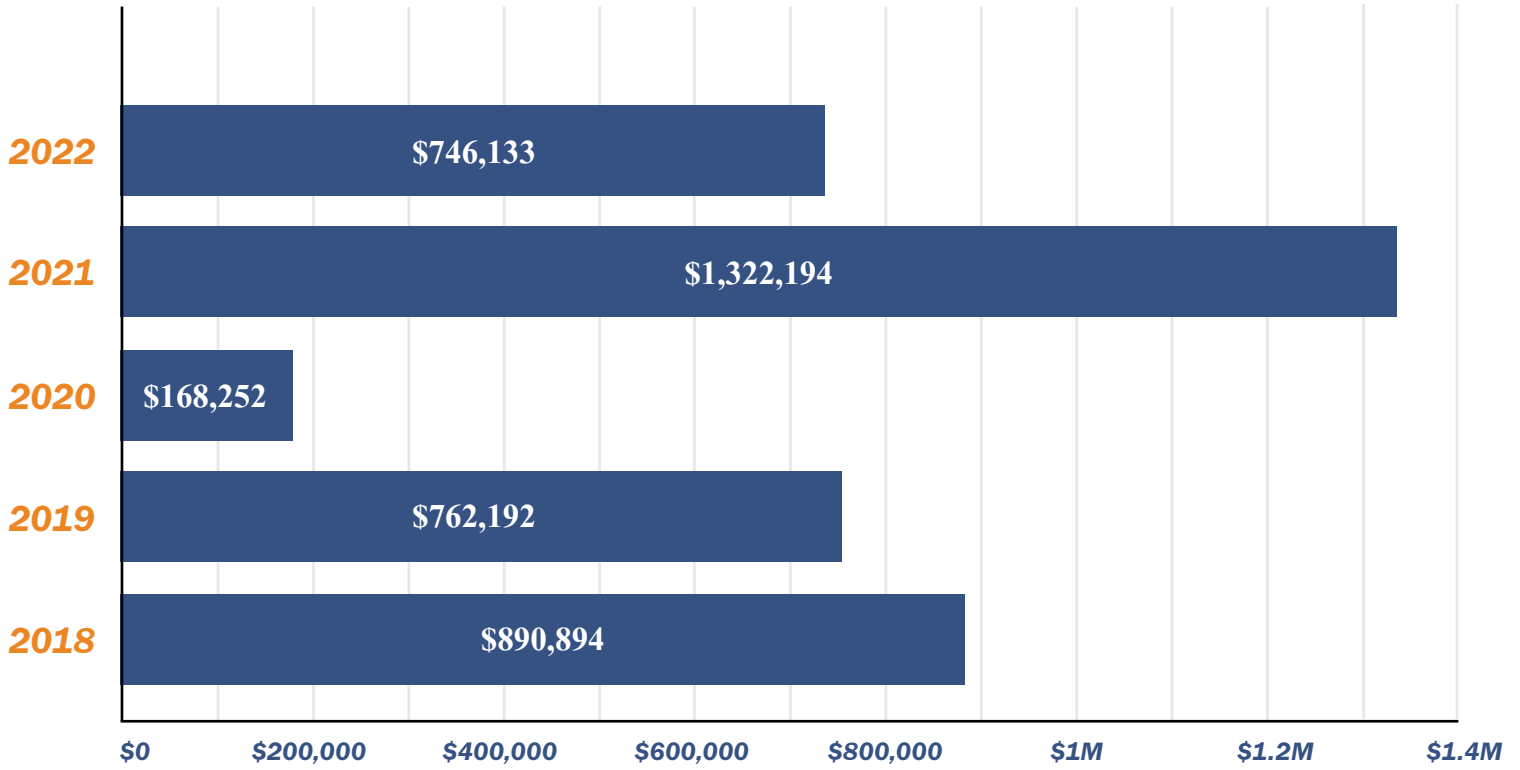
ANNUAL SALES



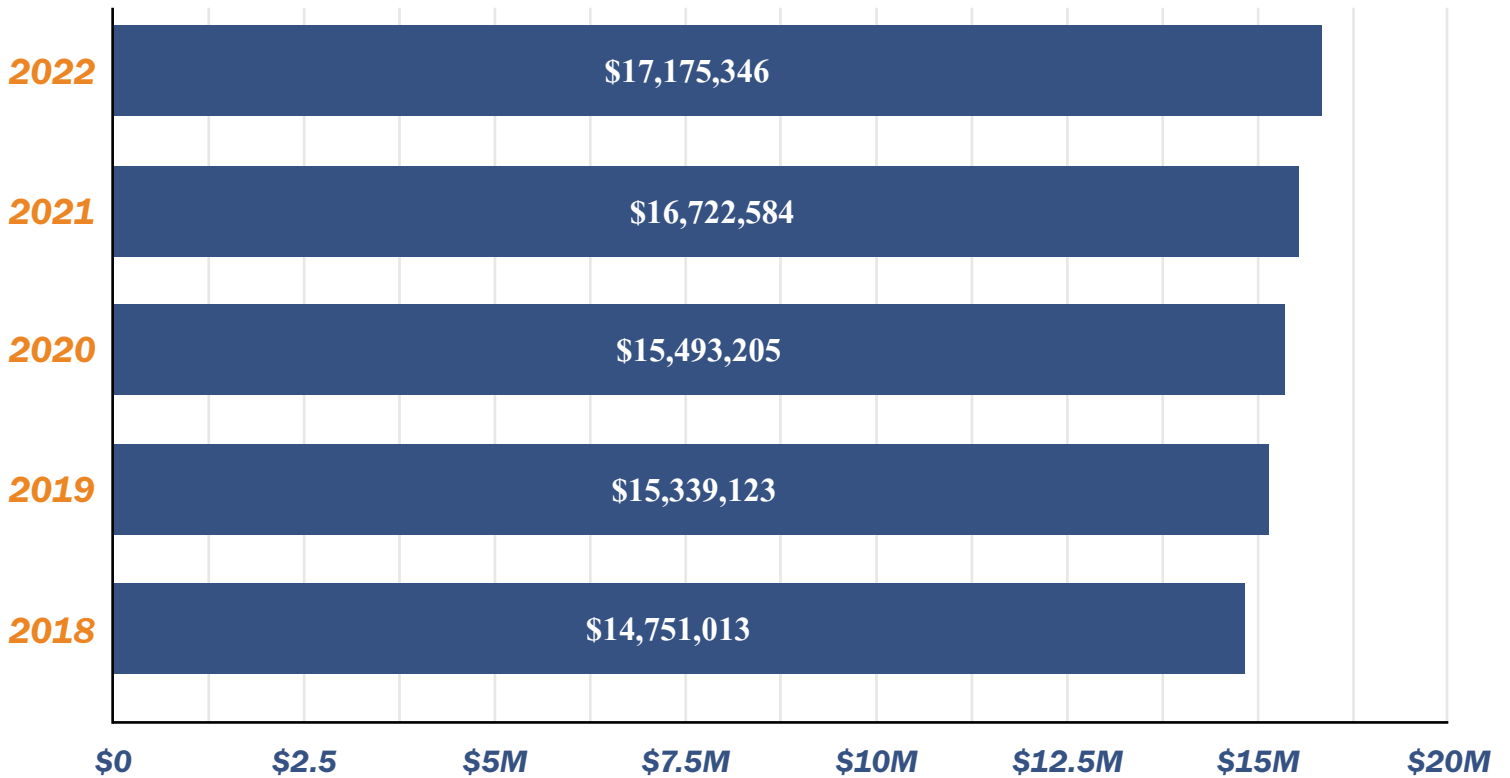
LOCAL SAVINGS



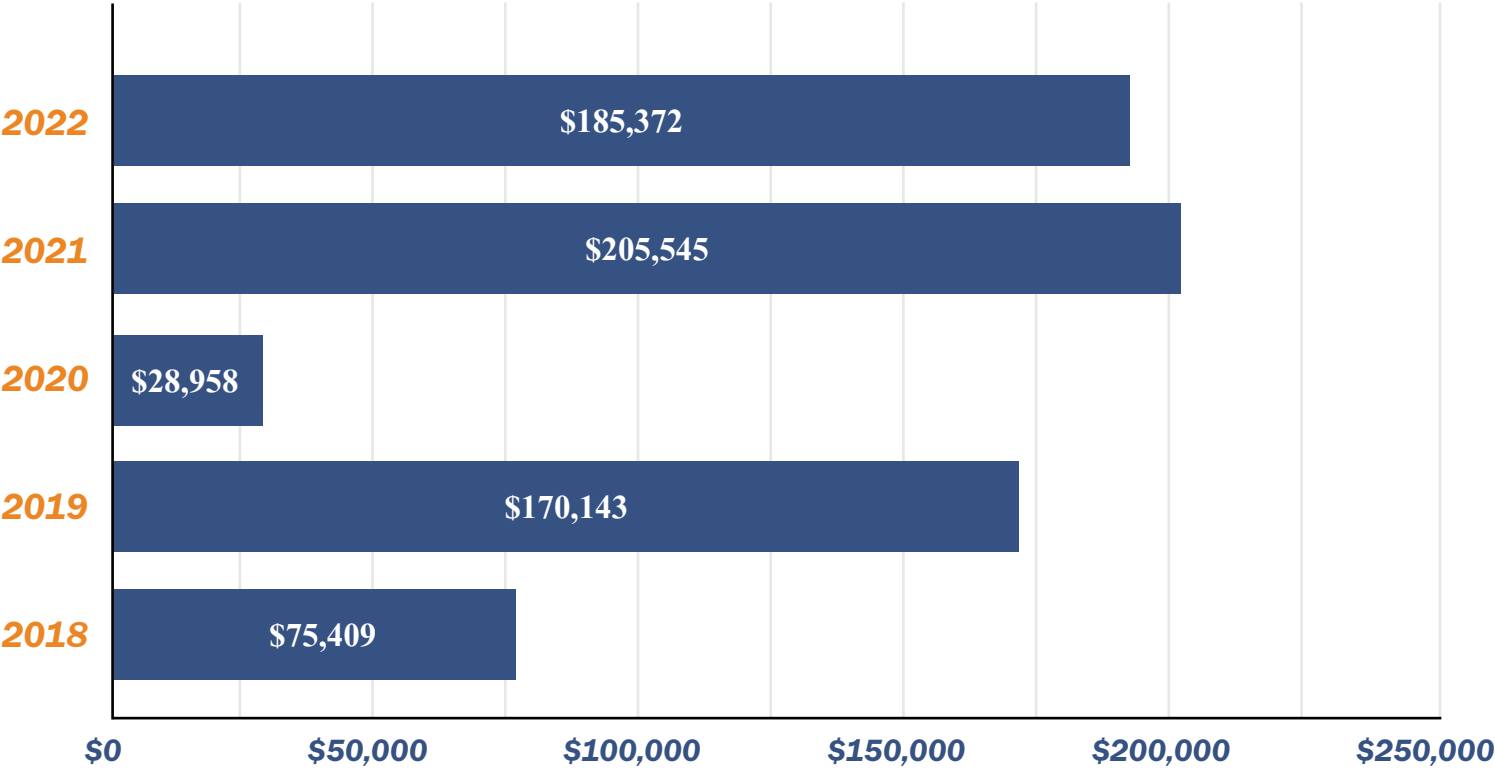
TOTAL SAVINGS



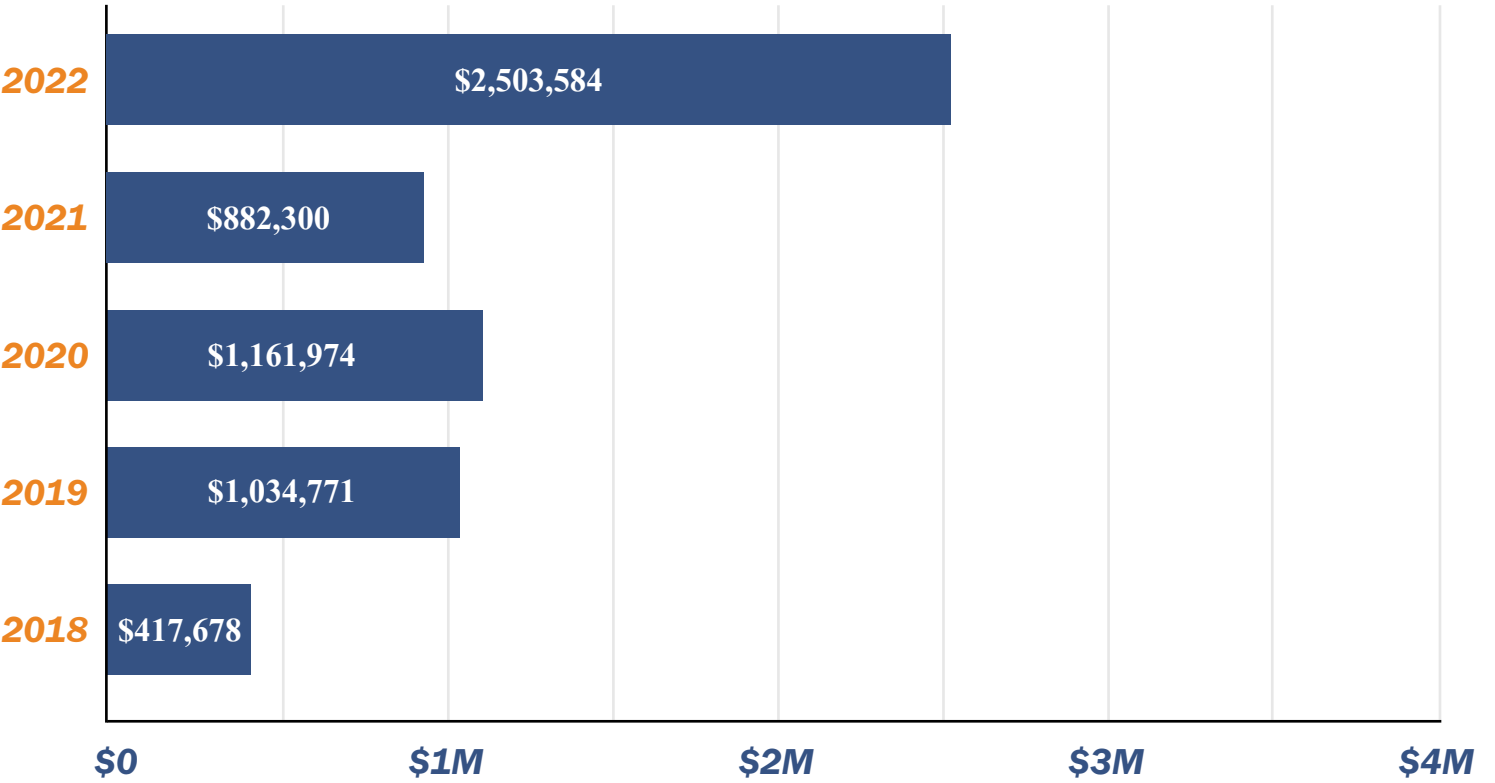
TOTAL MEMBERS' EQUITY



CASH RETURNED TO MEMBERS



ANNUAL FIXED ASSET EXPENDITURES





Otley Office
641-627-5311



Pella Office
641-628-4167



Monroe Office
641-259-2232



Tracy Office
641-949-6411



OTLEY • PELLA • MONROE • TRACY



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